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Review of the efficiency of the administrative and financial functioning of the United Nations

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Updated terms of reference for the Independent Audit Advisory Committee

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General on updated terms of reference for the Independent Audit Advisory Committee (IAAC) (A/61/812) in advance unedited form. The Committee also had before it a copy of a letter dated 19 March 2007 from the Chairman of the Board of Auditors addressed to the Secretary-General transmitting the comments of the Board on proposed terms of reference, as conveyed in a letter of the Controller dated 22 February 2007 addressed to the Chairman of the Board. The letter was provided to the Committee by the secretariat of the Board of Auditors. During its consideration of the report of the Secretary-General, the Committee met with the Controller, the Under-Secretary-General for Internal Oversight Services and other representatives of the Secretary-General, as well as members of the Audit Operations Committee of the Board of Auditors, who provided additional information and clarification.

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2. The report of the Secretary-General is submitted pursuant to General Assembly resolutions 60/248 and 61/245. In its resolution 60/248, the Assembly decided to establish the Independent Audit Advisory Committee to assist the Assembly in discharging its oversight responsibilities and requested the Secretary-General to propose its terms of reference. In its resolution 61/245, the Assembly endorsed the conclusions and recommendations of the Advisory Committee as contained in its report on the comprehensive review of governance and oversight within the United Nations and its funds, programmes and specialized agencies (A/61/605) and requested the Secretary-General to submit revised terms of reference for IAAC for consideration by the Assembly at the first part of its resumed sixty-first session.

3. In its report (A/61/605), the Advisory Committee had recommended that the General Assembly request the Secretary-General, after consulting with the Board of Auditors and the Office of Internal Oversight Services (OIOS), to submit revised terms of reference that would reflect the purely advisory role of IAAC and the responsibility of IAAC to advise the Assembly on issues it considers appropriate concerning the scope, content and outcome of the work of audit entities. The Committee had also: (a) expressed the view that IAAC should be composed of 5 members rather than 10; (b) recommended that the Assembly develop procedures to verify the qualifications of prospective members; (c) reiterated that the autonomy of the IAAC secretariat (like that of the secretariats of the Advisory Committee, the International Civil Service Commission and the Board of Auditors) should be ensured; and (d) stated that it saw merit in the procedure whereby IAAC would undertake an expert technical review of the oversight budget and advise the Assembly through the Advisory Committee of its findings and recommendations.

4. In his report, the Secretary-General indicated that OIOS was in agreement with the provisions of the draft terms of reference that had direct implications for OIOS and that the Board of Auditors had provided comments, many of which had been reflected in the draft terms of reference contained in the annex to the report (see A/61/812, para. 9). The Secretary-General further indicated that the Board had stated that it would continue to seek clarification with regard to the risk of overlapping functions between the Advisory Committee on Administrative and Budgetary Questions and the Independent Audit Advisory Committee. During its discussions with the Audit Operations Committee, the Advisory Committee on Administrative and Budgetary Questions was informed that the Board of Auditors had not yet been provided with a copy of the advance unedited text of the updated terms of reference (A/61/812, annex). **The Committee draws attention to the fact that the Board may have further comments on the updated terms of reference.**

II. Draft terms of reference

Role

5. **The Advisory Committee recommends the deletion of the second sentence in paragraph 1 of the updated terms of reference (A/61/812, annex).**

Functions

6. **The Advisory Committee recommends that the beginning of paragraph 2 of the terms of reference be revised to read "The tasks of the Committee are:".** The Committee notes, in connection with the functions of IAAC, that paragraph 7 provides for a review at least every three years by IAAC of the adequacy of its terms of reference. It also provides that IAAC shall, where necessary, propose changes to the General Assembly for consideration and approval. **The Committee is therefore of the opinion that there is no need to include in paragraph 2 the phrase "inter alia" to cover tasks not yet envisaged for IAAC.**

7. **The Advisory Committee recommends that the function of IAAC of providing technical advice to the General Assembly, set out in paragraph 1 of the updated terms of reference, should instead be incorporated in paragraph 2 (a).** The Committee notes that, in general, the terms of reference appear to be audit-centric. In this connection, the Committee recalls that the Assembly decided to establish IAAC "to assist the General Assembly in discharging its oversight responsibilities" (resolution 60/248). **Given the fact that IAAC is to be charged with reviewing the budget of OIOS, the Committee is of the opinion that paragraph 2 (a) should reflect the full range of OIOS functions rather than only the audit function. Taking into account these considerations, the Committee recommends that the text of paragraph 2 (a) be revised to read:**

> **(a) To provide technical advice to the General Assembly on the scope, results and cost-effectiveness of audit, evaluation and investigation and to provide comments to the Assembly on the workplans of the entities that audit the Secretariat.**

8. **The Advisory Committee recommends deletion of the expression "upon its request" in paragraph 2 (e). The Committee points out that IAAC, as a subsidiary body of the General Assembly, would, in any case, report to the Assembly.**

9. In paragraph 2 (f), IAAC is charged with the task of assessing whether OIOS "continues to have appropriate standing within the United Nations". **The Advisory Committee shares the view of the Board of Auditors that the phrase "appropriate standing" is unclear. It is for the General Assembly to decide how it wishes to deal with this matter.**

10. **With regard to paragraph 2 (g), it is the Advisory Committee's understanding that, in line with its recommendation in paragraph 49 of its report on the comprehensive review of governance and oversight (A/61/605), IAAC will review the budget proposal of OIOS and make recommendations to the General Assembly through the Advisory Committee.**

11. **The Advisory Committee recommends that the phrase "to challenge the basis for the internal audit programme" in paragraph 2 (h) be revised to read "to examine the basis for the internal audit programme".**

12. The Advisory Committee notes that the Board of Auditors has recommended that the entire section of the terms of reference dealing with the management of risk and internal controls (paras. 2 (j)-(m)) be deleted.

13. The Advisory Committee points out that risk management is an essential management function. It is self-evident that management should be consulted in this regard. **The Advisory Committee therefore recommends deletion of the phrase "after consulting with management" in paragraph 2 (j).**

14. In connection with paragraph 2 (k), the Advisory Committee points out that under financial regulation 7.5 of the Financial Regulations and Rules of the United Nations, the Board of Auditors "may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Organization". The Committee draws attention to the confusion that paragraph 2 (k) may engender as regards the different roles of the Board of Auditors under financial regulation 7.5 and IAAC under its terms of reference.

15. **The Advisory Committee recommends that the phrase "as it impacts the overall integrity of the financial statements" in paragraph 2 (m) be deleted (see also para. 16).**

16. **The Advisory Committee shares the view of the Board of Auditors, as communicated to the Secretary-General in its letter dated 19 March 2007 (see para. 1 above), that paragraph 2 (n) should be deleted. Providing advice to the General Assembly on the integrity of the audited financial statements of the United Nations is fully within the purview of the Board, as per article VII of the Financial Regulations and Rules. In this regard, the Committee recommends that the wording be revised so as to state that IAAC could advise the Assembly on the operational implications for the United Nations of the trends and issues apparent in the Organization's financial statements.**

17. **In paragraph 2 (o), the Advisory Committee recommends that, for the sake of clarity and consistency, the words "accounting principles and estimates" be replaced with the words "accounting standards and estimates".**

18. It is the Advisory Committee's understanding that the intention behind paragraph 2 (p) is that there will be dialogue and cooperation among similar audit advisory bodies within the United Nations system. **If this is the case, the Committee recommends that the paragraph be revised accordingly.**

Meetings and reporting

19. **The Advisory Committee recommends that the second sentence of paragraph 4 be revised to read:**

> **The Committee shall meet up to four times a year, in coordination with the relevant activities of the United Nations and the General Assembly and in accordance with Assembly resolutions on the pattern of conferences.**

20. **The Advisory Committee recommends that in the first sentence of paragraph 5 the phrase "the main output of the Committee shall be in the form of an annual report" be revised to read "the Committee shall submit an annual report". It further recommends that the third sentence of paragraph 5 be revised to read: "The Chairperson of the Committee shall attend hearings to respond to questions on the activities and findings of the Committee".**

Conditions of service

21. **The Advisory Committee recommends that members of IAAC receive a per diem and compensation for travel.**

22. **As to the determination of the terms of membership among the initial five members of IAAC, as discussed in paragraph 6 of the updated terms of reference, the Advisory Committee recommends that this be done by the drawing of lots.**

III. Criteria for membership of the Independent Audit Advisory Committee

Experience, qualifications and independence

23. **In the opinion of the Advisory Committee, the wording of paragraph 1 of the criteria for membership of IAAC (A/61/812, annex, appendix) should be changed in order to reflect the notion that the members of IAAC should not represent Governments of Member States.**

24. **The Advisory Committee recommends that the reference to "financial, audit and oversight-related experience" in paragraph 2 of the criteria for membership be revised to read "financial, audit, evaluation and investigation experience". Furthermore, in the view of the Committee, the criteria in paragraph 2 should also include the highest level of integrity and a high level of relevant technical training; knowledge of international organizations, including the United Nations, would also be desirable.**

25. **Paragraph 4 of the criteria for membership should be moved under the heading entitled "Experience, qualifications and independence" and renumbered as paragraph 3. In addition, the Advisory Committee recommends that the phrase "the functions, operations and risks of the Secretariat" be revised to read "the functions and operations of the Secretariat".**

Identification and selection

26. In paragraph 3 (which is proposed to be renumbered as para. 4) of the criteria for membership, it is proposed that members be selected by the General Assembly from a compendium of at least 10 candidates identified through a technical assessment by "an independent international organization of appropriate stature". **The Advisory Committee points out that this would delegate the preparation of the list of candidates to an outside body. The Committee had recommended that the Assembly develop procedures to verify the qualifications of prospective members (A/61/605, para. 46), and the Assembly endorsed the recommendation (resolution 61/245).**

IV. Resource requirements

27. **The Advisory Committee is not convinced that the proposed staffing for the secretariat of IAAC, as set out in paragraph 19 of the report of the Secretary-General, is justified at this point. The Committee therefore recommends approval of one P-5 and one General Service post for the secretariat. Furthermore, the Committee is not persuaded that the proposed $50,000 in consultancy fees to assist in the establishment of the Committee is warranted. In the Committee's view, this should be handled by the secretariat and the members of IAAC themselves.**